CHAPTER 7

SUGGESTIONS AND CONCLUSION
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Despite forming the economic bedrock of most low income countries, small scale enterprises often operate in difficult business environment and weak institutional settings along with little access to physical and human capital. Improving the investment climate faced by small scale enterprises is therefore increasingly viewed as pivotal to promoting economic growth in low income countries. SSIs are widely promoted as a means of reaping the double dividend of pro poor growth. In a state like Kerala, where unemployment and underemployment are proliferating economic diseases and where most of the entrepreneurs are capable of making only small investment, small industry which is labour intensive and capital saving plays a vital role in the overall economic development of the state. In the era of globalisation, small enterprises have to be restructured themselves in terms of their products, technologies and marketing arrangements in order to survive, grow and get integrated with world economy as there are a number of threats and opportunities.

7.1 Background and Focus

In spite of all the favourable geographic, social, demographic and economic factors prevailing in Kerala, the performance of the industrial sector at large and the small scale sector in particular is far below the potential. Not only the productivity of the SSI sector is very low but also the sickness and failure rates are very high. The reasons for this high death and sickness rate of small enterprises are economic and non-economic. The present study looks into the factors leading to success as well as sickness and failure of modern small enterprises in the state. It tries to identify the
factors behind the high mortality and sickness of modern small enterprises, to analyse the inter-sectoral variation in the high mortality and sickness of modern small enterprises and finally to make suggestions for tackling the problem of mortality and sickness of modern small enterprises.

The study considered only modern small enterprises engaged in manufacturing or processing. Multi stage sampling is adopted to collect the primary data. In the first stage, Ernakulam is selected on the basis of geographical location. In the second stage, the list of working, sick and closed units in the district was collected. Major sectors in the manufacturing / processing are then identified. The sampling frame is the list of five sectors (food products, rubber, plastic, chemical which includes paint and engineering which includes electrical and electronics) pertaining to working, sick and closed units. In the third stage, non proportionate random sampling is used to select the entrepreneurs of working and sick units. Twenty working and sixteen sick units each were taken from all the five sectors. As the data about the universe in closed units is not available, four entrepreneurs each from five sectors have been identified after discussions with authorities. In-depth case studies of 10 closed units and 5 successful units with equal representation to all five sectors were also conducted. Employing suitable statistical tools the study arrived at a number of findings

7.2 Major findings

The major findings of the study are discussed under the following sub titles.
7.2.1 Nature of Success, Sickness and Closure

Religion, nature of organisation, age at the entry level, marital status, education, background of the family, experience of the entrepreneur etc., influence the success or failure of the enterprises or entrepreneur. At the outset it needs to be stated that the highest incidence of failure is (sick - 41.25%, closed 40%) noticed among the Hindu entrepreneurs when compared with the Muslim and Christian entrepreneurs. The failure rate was also high (62.5%) among the high caste Hindus.

In respect of nature of organisation, the most successful type of organisation is private limited companies, which accounts for 80 per cent of the companies. It is further found that location is an important factor for the success or failure. While the units in semi-urban areas are most successful, enterprises in other areas are reported to be more sick / failure as is evident from the data where the enterprises in industrial development areas (I.D.A), which are often situated in semi-urban areas, are found to be more successful than enterprises situated in rural areas.

Entrepreneurs who enter the business at an early age are more likely to fail than those entering at an age above 35 years as is evident from the fact that the average age of the entrepreneur of the successful units was 36.15 years, whereas it is 30.57 years and 28.65 years for sick and closed enterprises respectively. With respect to marital status, the failure rate was low among entrepreneurs who started their business after marriage as compared to those who began the business before marriage. Of the total entrepreneurs who started their business after marriage, the failure rate was only 31.9 per cent (19.14 per cent for sick and 12.76 per cent for closed enterprises).
There is a direct and positive relationship between education of entrepreneur and his success in business. It is further noticed that failure rate is the lowest (8.48%) among technically and professionally educated entrepreneurs. It is found that there is a very significant relation with the occupation of the father of the entrepreneurs and the performance of entrepreneurs. Entrepreneurs, whose parents were farmers, the failure rate was 77 per cent (63.7 percent sick and 13 per cent closed). It is also found that the failure rate was low in the case of entrepreneurs whose parents were business people. 72 per cent of entrepreneurs whose siblings are business people are also found to be performing well. The study found that entrepreneurs whose spouses’ family have a business background were more successful (84%) compared to others.

It has been identified that prior experience in the same field is an important determinant for the success. Of the total entrepreneurs with prior experience in the same field of production, the failure rate was only 8.7 per cent (6.52 per cent sick and 2.17 per cent closed). It becomes absolutely nil if the entrepreneurs had prior experience in the same field of marketing. The success rate among the entrepreneurs who have no previous work experience was only 18 per cent. Work experience in the marketing field is a more advantageous factor compared to work experience in the production field.

Analysing the motivation factors behind the entrepreneurship, it is found that the failure rate is low (12%) in the case of entrepreneurs with positive motivations like success stories of other entrepreneurs, motivation from family/friends/relatives, motivation to utilise market opportunity etc.
7.2.2 Factors that led to success, sickness or mortality

Analysing the factors behind the high mortality and sickness of modern small enterprises, it is revealed that size of fixed capital, size of working capital, percentage of loan to total capital, advertisement expenditure and employment are significant factors that influence the performance. With respect to capital, firms having larger investments by way of fixed and working capital were more successful as compared to others. What is more significant is that the ratio of working capital to fixed capital (FC / WC) was greater among successful units compared to sick and closed units. The average of working capital to fixed capital ratio was 1:3.96 among successful units and this was 1:2.8 and 1:2.69 among sick and closed units respectively. In short, the units with large fixed capital as well as working capital and with a high WC/FC ratio are found to be successful. It is of interest to note that firms with higher proportion of loan to their total FC were more vulnerable to failure. The average proportion of loan to the total FC were 47.5 per cent for sick and 59.5 per cent for closed units respectively but it was only 32.15 per cent for the successful units. Again, depending too much on borrowed fund for working capital reduces success rate.

Examining the cost, it is identified initially that rise in the cost of raw materials (46% of total cost) have reduced the rate of profit of many successful units and even made some of them sick. Though wage prevailing in Kerala is higher as compared to the neighbouring states, it has not influenced the performance of small enterprises. It has also been noticed that successful units employed comparatively greater number of labourers than failed ones. The average number of persons employed was 22.3 by working units, 14.75 by sick and 13.5 by closed units. Interest
cost approximately accounts for seven per cent of the total cost and has affected a few (32%) enterprises adversely.

Naturally, the annual sales turnover of the successful units is much higher than that of failed units (Rs. 9.44 crore, Rs. 4.95 crore and Rs. 2.58 crore for successful, sick an closed units respectively). The average return / net profit per year is estimated at 7.64 per cent. This shows that small enterprises in the state are earning only a reasonable rate of profit, not attractive one. This raises doubts about the future prospects of the small enterprises, which is established by the sales trend. It is not a positive sign to find that 59 per cent of MSEs surveyed faced either a decrease or stagnation in their sales trend.

The performance of enterprises is not a pleasant one, which is further proved by the capacity utilisation. The average capacity utilisation among the successful units was 49 per cent, while it was 34 per cent and 28 per cent respectively for sick and closed units. It is really higher than the state average but still not a presentable figure, especially when the district is an industrial centre. The major reason for the low capacity utilisation of the MSEs in the district was lack of demand for their products. Shortage of working capital, raw material, power and labour were other problems hindering efficient utilisation of capacity.

Using discriminant analysis the factors that are significant in classifying the performance of success, sick and closed units have been identified. The variables such as age, education, experience, and occupational background are the major significant factors that cause for success or failure of entrepreneurs. The size of fixed capital, size of working capital, percentage of loan to total fixed and working capital,
and employment are also found to be significant in classifying successful, sick and closed enterprises on the basis of their performance. The factors that influence the return or net profit of successful enterprises have been identified with the help of regression analysis. It is found that education and occupation of father are most significant variables that influence the return / net profit of the enterprises.

Business strategies like innovation, branding, credit facility, etc. play a significant role in the performance of enterprises. Innovations in production or sales methods reduce the possibility of failure and enable the units to perform better. 78 per cent of working units, 92.5 per cent of sick and 95 per cent of closed units were just imitating the already existing products and marketing methods. This feature is dominant among professionally qualified entrepreneurs.

Though there was no close relationship between the performance of the units and the branding of the product, successful units (88%) were producing more of branded products compared to sick and closed. While the units that depended on credit facility in purchasing raw material but on cash down payments for sales performed better. Units with national (wider) market performed better compared to those that depended on local and state market. It is found that advertisement and publicity helps to succeed in a better way. Prior market survey reduces failure rate (1.5%). Successful units spend more on research and development. The study found that only very few units (3.5%) had a formal Research and Development (R and D) wing with separate office and employees. The formal R and D operations were concentrated in spices extracting units, and chemical units. However, informal R and D operations were found in 24.5 per cent of the total units.
The selected case studies reveal the fact that the role of entrepreneurs in determining the performance of the units is very decisive. It is seen that success of entrepreneurs can be attributed to the education, family background, previous work experience, and motivation of entrepreneurs as well as rightful strategies they adopted regarding raw material purchase, marketing, innovation, branding, advertisement, labour problems, etc.

Entrepreneurs in failed units have deficiency of these qualities. Marketing and finance were pointed out as the major problems of the failed entrepreneurs. It is seen that the majority of units failed due to the personal incompetence, mismanagement or lacking in insight, sincerity, experience and family or social support of the entrepreneurs.

7.2.3 Inter-sectoral variation

The five sectors considered (chemical, rubber, food, engineering and plastic) in the study have been analysed in detail in order to see whether there is any sectoral differences in terms of the variables identified earlier. The study found that enterprises in rubber, chemical and plastic sectors are performing better in terms of annual sales turnover and profit rate, compared to food and engineering sector units. Growth in sales trend is higher in rubber sector and it is the lowest in food and engineering sectors.

The above finding is supported by the factors that influence the success or failure. It is found that private limited companies are more in number with comparatively older enterprises in chemical and rubber sector than food and engineering units. Compared to other sectors plastic, rubber and chemical sectors
have larger amount of fixed capital. Fixed capital growth rate also presents similar pattern. In the case of working capital also, food and engineering sectors had lesser amount of investment. Regarding the source of market for the sale of products, it was found that food and engineering sectors are mostly depending on local markets. Plastic and chemical sectors are depending on the state level market. Competition is comparatively less in rubber and chemical sectors whereas it is very high in food and engineering sectors.

As against the general findings, there are some sectoral differences. Though it has been observed that labour problem has not affected the performance of enterprises in general, it was comparatively acute in chemical, plastic and rubber sectors but they tackled it. It gives an important and valid inference that the entrepreneurs who are capable of handling the labour problems successfully can win the game. Some differences have been observed in respect of strategies adopted by enterprises belonging to different sectors. Product innovations are more in engineering and chemical sectors. In advertisement expenditure, food and plastic sector spends more money. Marketing problem was more severe in food and plastic sectors.

The reasons for success and failure diagonised in the study can be summed up as follows:
<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Factors</th>
<th>Successful units</th>
<th>Sick / Closed units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Age, education and previous work experience</td>
<td>Entrepreneurs above 35 years of age at the starting of business with professional or technical education and having prior work experience in the same field succeed. Experience in marketing makes a slide edge for the success.</td>
<td>Entrepreneurs below 35 years of age at the starting of business with low general education and having no prior work experience in the same field fail.</td>
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<tr>
<td>2</td>
<td>Occupational family background</td>
<td>Entrepreneurs with business family background are successful</td>
<td>Entrepreneurs with agricultural or bureaucratic background are likely to fail.</td>
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<tr>
<td>3</td>
<td>Motivation of the entrepreneur</td>
<td>Entrepreneurs with positive motivation like the desire to make money by utilising the work experience and market opportunities rather than waiting for a salaried job succeed.</td>
<td>Entrepreneurs with negative motivations like desire to have a self employment since no other decent job could not be attained often fail</td>
</tr>
<tr>
<td>4</td>
<td>Location</td>
<td>Units located in Semi-urban areas are succeeding better</td>
<td>Units located in rural areas are more exhibit sickness and failure.</td>
</tr>
<tr>
<td>5</td>
<td>Years of operation</td>
<td>Units that have operated for more than three years without making any default in the repayment of loan are successful</td>
<td>Failure of units mostly occurs at the initial periods of operation.</td>
</tr>
<tr>
<td>6</td>
<td>Capital</td>
<td>Units having larger amount of FC and WC with lesser proportion of loan succeed</td>
<td>Enterprises having smaller amount of capital investment with higher proportion of loan fail.</td>
</tr>
<tr>
<td>Sl. No</td>
<td>Factors</td>
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<td>7.</td>
<td>Raw material</td>
<td>Enterprises that directly purchase raw materials from the suppliers succeed.</td>
<td>Units that purchase raw materials through brokers and intermediaries fail in business.</td>
</tr>
<tr>
<td>8.</td>
<td>Employment</td>
<td>Units that employ cheap and more labourers (north Indian labourers) at reduce wage cost and able to tackle labour problems are found to be successful.</td>
<td>Enterprises that solely depend on state labour and fail to tackle the labour problems in business are found to be sick and failed.</td>
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<tr>
<td>9.</td>
<td>Market</td>
<td>Those who have wider market and follow direct marketing with less credit sale succeed.</td>
<td>Those who depend on local market or on a single customer with larger volume of credit sale fail.</td>
</tr>
<tr>
<td>10.</td>
<td>Marketing strategy</td>
<td>Units with moderate advertisement expenditure, innovations, maintaining quality standards and branding succeed.</td>
<td>Enterprises with no innovations, quality standard and branding fail.</td>
</tr>
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<td>12.</td>
<td>Finance</td>
<td>Entrepreneurs who are capable of mobiising internal funds, do not make diversion of funds and reinvest part of the profit do succeed.</td>
<td>Entrepreneurs who make diversion of funds do fail.</td>
</tr>
<tr>
<td>13.</td>
<td>Form of Organisation</td>
<td>Sole proprietorship and private limited companies are more suitable for food processing and Engineering. Private Limited companies are found to be more successful in chemical, plastic and rubber sectors</td>
<td>The failure rate among partnership form is high.</td>
</tr>
</tbody>
</table>
7.2.4 Suggestions

The survey has come out with following suggestions through discussions with experts and entrepreneurs.

!! Failure of the units mostly occurs in their initial periods of operation and hence it is suggested that instead of providing mere subsidy and other financial assistance alone, the government should develop methods to follow up and monitor the new units during their early years of operation. Alternatively, subsidy and other financial assistances should be given in different installments extending over a period of 10 years.

!! Land is very costly in the state and the new units will be forced to invest huge amount on land reducing their capability to invest on plant and machinery. All these necessitate the establishment of greater number of industrial development areas in the district and in the state.

!! Delay in getting electricity connection was the crucial problem majority of the units faced during their initial periods of operation. Both electricity and industrial department should work in consultation with each other to rectify this problem.

!! The government should encourage professional management among the modern small enterprises by providing trainings and other refresher courses through Industrial Department in collaboration with Small Industries Associations.

!! Though trade union militancy and labour agitations are decreased largely compared to the 1980s, the work culture is poor on the one hand and the
labour has become scarce on the other. Government and various political parties should take initiatives to create a better work culture in the state. To reduce the shortage of labour, the modern small enterprises should have tie-ups with polytechnics and other technical institutions for getting skilled personnel at reasonable salary.

Banks should follow a more favourable attitude towards the industrialists, especially the new industrialists in giving loans. To reduce loan problems, a consortium at the district level comprising representatives from industrialists, government and bank officials should be set up.

Measures should be taken to increase capacity utilisation of modern small enterprises in the state.

The major problem faced by modern small enterprises is the lack of demand for their products. Majority of the units are depending on local and state market. These units should be helped to widen their markets in and outside the state. Exhibitions should be organised by the government at state and district levels to provide facility to introduce new products to the public.

To reduce the failure rate of modern small enterprises, the conducting of prior market survey should be made compulsory for units before initiating production. Government agencies and educational institutions should help these units to conduct such prior market surveys.

Getting ISI and other quality marks are not so easy for majority of the modern small enterprises as it involves huge expenditure. To compensate
this, the state government should organise a mechanism of assigning quality mark to the products of modern small enterprises.

!! Insurance linkage should be established to compensate loss of profit due to external problems.

!! A consortium of the industrialists should be established with the help of industries department at district level to encourage research and development, innovations and product diversification.

7.3 Implications of the study

The finding of the study that entrepreneurs with business background and prior experience that provides them knowledge of production and marketing are most successful need to be an important prescription for policy makers. The need to change the attitude of bureaucrats as it drives out several skilled entrepreneurs from the state to other states as reported in the survey necessitates the intervention of authorities concerned to tackle the problem urgently for the success of modern small enterprises. Hence the implication is that unless the authorities tackle these problems the failure rate of modern small enterprises can not be checked.

7.4 Contribution of the Researcher

Unlike the earlier studies on small scale sector, which mainly concentrated on the reasons for sickness or the profile of the entrepreneurs, the present study is an attempt to interrelate the successful, sick and closed units. As a result it made a significant contribution to diagnose the real problems behind the success and failure of entrepreneurs in modern small scale sector.
7.5 Future Research Issues

The present study has identified a few issues for further research. The foremost one is the need for a comparative analysis of small enterprises across various regions. The second one is the sector specific in-depth analysis will help to explore the determinants of success and failure in each sector.

7.6 Conclusion

To survive in a world of competition the small enterprises have to produce quality products, which require constant innovation in both production and marketing. The bottleneck for this is the absence of conducive environment for setting up the enterprises in Kerala, as cited by experts. They substantiate this by pointing out the simple reality that entrepreneurs in the State migrate to other states like Tamil Nadu. But the perception that the entrepreneurs could perform better outside the state is not validated by majority of the successful enterprises in the present study. While sixty five per cent of the sick units and eighty per cent of the closed units perceived that they could perform better if their factory were outside Kerala, only 39 per cent of successful enterprises opined that they could perform better outside Kerala. The highlight of their argument is that the helping nature of the officials and the speed at which things are done in the neighbouring states need to be copied down in the State. To sum up, the government has to make room for conducive environment through proper policy measures and by rectifying the handicaps identified in the study.